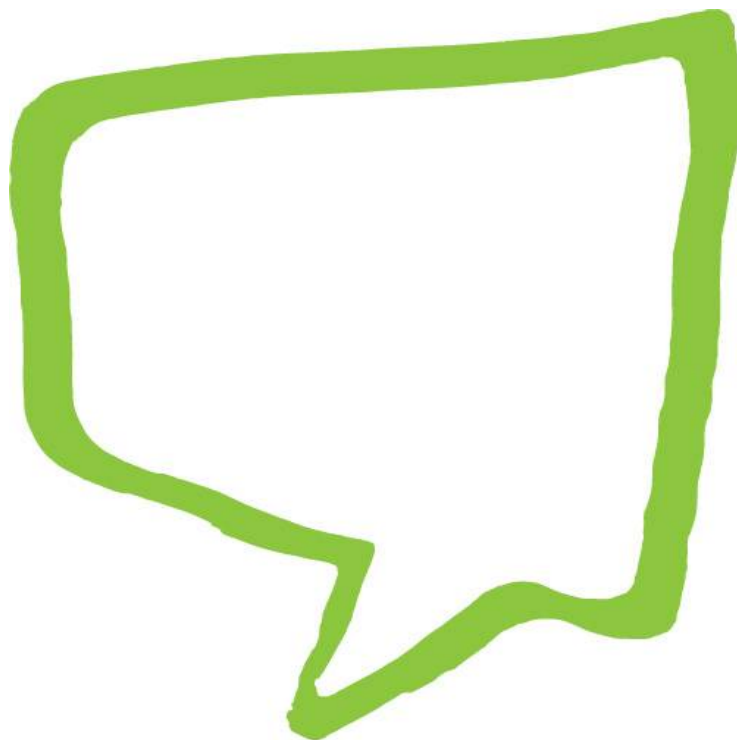


Certification of Annual Claims and Returns - Annual Report

South Oxfordshire District Council

Audit 2008/09

February 2010



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Status of our Reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants.

This report summarises the findings from the certification of 2008/09 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims

- 1 South Oxfordshire District Council receives more than £26 million funding from various grant-paying departments. The grant-paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.
- 2 In addition, the Council collects business rates to pay into the national pool, from which the Council then receives grant funding. The amount payable to the pool of £38 million is also subject to certification.
- 3 In 2008/09, my audit team certified four claims with a total value of £65 million. Of these, we carried out a limited review of three claims and a full review of one claim. (Paragraph 10 explains the difference). We amended two claims after limited review and one claim requiring full certification for errors. For the claim requiring full certification, although we made one adjustment we were unable to fully certify the claim and issued a qualification letter to the grant-paying body. Appendix 1 sets out a full summary.

Significant findings

- 4 Our key area of concern in certifying grant claims for the Council relates to housing benefits, which is subject to a full review. This claim was qualified for the second year due to inaccuracies in both benefits calculations and in classification of overpayments of benefits. The Council may lose subsidy due to the extent of local authority error leading to overpayments in 2008/09.

Certification fees

- 5 The fees I charged for grant certification work in 2008/09 were £31,932. The majority of this fee related to certification of the housing benefit claim.

Actions

- 6 Appendix 3 summarises my recommendations. The relevant officers of the Council have agreed these recommendations and to implement the required action to deliver them.

Background

- 7 The Council claims £26.7 million for specific activities from grant paying departments. It also collects business rates (NNDR) on behalf of the Government which it pays into the national pool of £38 million. As this is significant to the Council's income and expenditure it is important that this process is properly managed. In particular this means:
 - an adequate control environment over each claim and return; and
 - ensuring that the Council can evidence that it has met the conditions attached to each claim.
- 8 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to South Oxfordshire District Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.
- 9 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 10 The key features of the current arrangements are as follows.
 - For claims and returns below £100,000 the Commission does not make certification arrangements.
 - For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
 - For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
 - For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

Findings

Control environment

- 11 The control environment over the two biggest claims we are required to certify, housing benefits and NNDR, is made more complicated because management of the systems that support the claims, and completion of the claims themselves, is outsourced to Capita.
- 12 Regardless of who completes the claim, responsibility for ensuring the accuracy of the claims and of the control environment remains with the Council. This is one of the aspects covered by the certification of claims by the Council's S151 officer. The Council was able to provide us with details of the processes it relied on to provide it with this assurance, and we were able to work closely with Capita staff in completing our certification work.
- 13 However, whilst we concluded that the control environment for the NNDR claim was adequate, the extent of the errors within the housing benefit claim demonstrates a weakness in this area.
- 14 The Council introduced further reviews of the procedures to control housing benefit in 2008/09, but it is clear these are not adequate to prevent a recurrence of the errors identified by our work in the past two years.
- 15 For the claims completed by Council staff, whilst there were errors in the forms themselves which indicate a need for better review processes, we do not have concerns over the control environment within the systems generating the figures for the claims.

Specific claims

- 16 There were no adjustments made to the NNDR claim and the amount payable to the pool of £38 million was certified without qualification.
- 17 There was one adjustment to the claim for disabled facility grants. The officer preparing the claim had not realised the full amount paid up to the grant ceiling of £480,000 was claimable in 2008/09 (as opposed to 60 per cent in 2007/08). This increased the amount of grant support to the Council in year by £33,772.
- 18 For the claim for the pooling of housing capital receipts the initial claim amount of £376,072 was below the £500k ceiling on which we have to assess the control environment. Our review identified that this figure was inaccurate, and a second grant form with a value of £586,489 was submitted. We therefore carried out an assessment of the control environment before reviewing the claim. We again identified errors, and the final claim value we certified was £455,045. The errors led to an increased grant fee.

Findings

Recommendation

R1 Checking procedures for grants prepared in house should be reviewed to ensure claims are accurate.

- 19** The claim on which most errors were identified, and which we were unable to certify without qualification, was the housing benefit claim.
- 20** The errors we identified fell into three main categories:
- inadequate recording of evidence to support earnings, including use of only one wage or salary slip (which is not enough as earnings can vary);
 - inadequate trails to evidence supporting pensions or state benefits; and
 - misclassification of local authority errors leading to overpayments (which receive no subsidy, and on which there is a cap) as other types of overpayment (mainly caused by claimant error).

Inadequate evidence to support earnings

- 21** It is recommended that, unless there are good grounds to assume that earnings do not fluctuate, a minimum of two salary slips and five wages slips be used to calculate earnings for benefit calculation purposes. We identified a general issue across all benefit types where only one salary or wage slip was being used without any evidence that there was good grounds to do so.
- 22** In a number of cases, further wage or salary slips were found which showed that earnings did vary, which resulted in both under and overpayment of benefit to claimants. As we were unable to quantify the effect of this in the wider benefit population we included this information within our qualification letter.

Inadequate trails to support pensions or state benefits

- 23** Recording of evidence to support pension or other state benefit payments within the housing benefit system was incomplete (partly due to a change in document imaging system), and when amounts were cross checked to the DWP system, the amounts used for benefit calculation was found to be inaccurate in a number of cases. This resulted in both under and overpayment of benefit to claimants. As we were unable to quantify the effect of this in the wider benefit population we included this information within our qualification letter.

Misclassification of errors leading to overpayment of benefit

- 24** Where information comes to light which shows that benefit has been overpaid, the amount of the overpayment up to the date the information is received is counted as claimant error, and the Council is entitled to benefit subsidy on these overpayments. After the date the information is received and up to the date the overpayment is corrected, the overpayment is counted as local authority error. There is a cap on the level of local authority allowed across benefit types which impacts on subsidy receivable.

- 25 The default classification for council tax benefit overpayments is claimant error, and benefit staff need to enter the details of when the information was received to allocate the overpayments between claimant and local authority error.
- 26 For council tax benefit, where the benefit is awarded for the entire year on first assessment, the amount of benefit from the date the benefit ceases to the end of the year is recorded as 'technical excess' and used to reduce the total amount of benefit paid. The date from which this technical excess has to be calculated has to be entered by benefits staff.
- 27 We identified one case within council tax benefit overpayments that had incorrectly been left as claimant error, when it should have been local authority error. We therefore took a sample of a further 40 cases of claimant error overpayments (as required by the Department for Works and Pensions) to be checked initially by Capita.
- 28 They identified 16 cases where they considered the claimant error classification was incorrect. We sampled their results, and as we found errors in their testing we reviewed all 40 cases ourselves. We confirmed that 19 of the 40 cases were incorrectly classified.
- 29 This information, together with the value of the original errors, was included within our qualification letter to the department, with a potential impact on the population of claimant error overpayments as a whole. The Department is now considering our qualification but if our calculations are accepted this could result in the Council exceeding the lower limit for local authority overpayments, and a loss of subsidy. Our qualification letter is included for information at Appendix 2.
- 30 Concerns over the accuracy of benefits processing have been discussed with Members via both the Ridgeway Services Board and in the Audit and Corporate Governance Committee. This report strengthens the need to take positive measures to improve the accuracy of benefit payments to claimants, and the requirement to improve training by Capita of its staff to prevent a recurrence of the errors noted for the past two years.

Recommendations

- R2** The role of the Council in monitoring the accuracy of benefits processing to support correct payment of benefit during the year, and in completion of the housing benefit claim, should be strengthened.
- R3** Issues arising from the certification of the benefits claim should be raised with Capita via the contract for the provision of benefit processing. In particular the Council should require:
- use of good practice for evidencing earnings unless there is recorded evidence to say why this is not necessary;
 - better accuracy and recording of pension entitlements; and
 - improved accuracy in classification of benefit overpayments.

Appendix 1 – Summary of 2008/09 certified claims

Claims and returns above £500,000

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing and council tax benefit	25,845,533	No	Yes	Yes
Business Rates (NNDR)	38,354,765	Yes	No	No

Claims between £100,000 and £500,000

Claim	Value £	Amended
Disabled facilities grant	480,000	Yes
Pooling of housing capital receipts	455,045	Yes

Appendix 2 – Housing Benefit Qualification Letter

Department for Work and Pensions
Housing Benefits Unit
Room 512
Norcross
BLACKPOOL
FY5 3TA

Dear Sir / Madam

South Oxfordshire District Council
Housing Benefit & Council Tax Benefit claim for the year ended 31 March 2009
(Form MPF720A)
Qualification Letter referred to in the Auditor's Certificate dated
3 December 2009

Details of the matters giving rise to my qualification of the above claim are set out in the Appendix to this letter.

The factual content of my qualification has been agreed with officers of the Authority.

No amendments have been made to the claim for the issues raised in this qualification letter.

Yours faithfully

Anne Ockleston
Audit Manager

Cross cutting qualification issues

Evidence to support wages / salaries

We noted across all benefit classifications that, in calculating average earned income, the Council routinely takes less than the recommended number of wage slips to support this calculation without an audit trail showing good cause to support this i.e. less than 5 consecutive weekly payslips or two consecutive monthly payslips. In the majority of instances there is no evidence to allow me to assess whether this practice would make any difference to benefit entitlement. Where further wage slips have highlighted a change in benefit entitlement these are listed against specific cells.

Cell 148: Council tax benefit - Eligible overpayments (current year)

Cell 148: cell total: £114,432

Headline cell 142: £5,785,352

The testing of the initial sample identified 1 eligible overpayment case where the Authority had misclassified LA error overpayments as eligible overpayments. Given the nature of the population and the errors found, an additional random sample of 40 cases was taken from the audit trail supporting cell 109. This additional testing identified 19 further test failures. Of these the Authority misclassified 15 technical excess benefit cases and 4 LA error overpayment cases as eligible overpayments. The results of my testing are set out in the tables overleaf:

Appendix 2 – Housing Benefit Qualification Letter

Results of testing:

Testing and sample size	Cell Total	Sample Error	Sample Value	Percentage error rate	Cell Adjustment	Revised Cell Total if Cell Adjustment applied
	[CT]	[SE]	[SV]	[SE/SV]	[CA = CT times SE/SV]	[CT less CA]
Initial sample - 5 case	£114,432	£130.79	£269.56	48.52%	£55,522.19	£58,909.81
Additional random sample - 40 eligible overpayment cases	£114,432	£7,844.97	£14,119.84	55.84%	£63,902.49	£50,529.51
Combined sample results - 45 cases	£114,432	£8,015.76	£14,389.40	55.71%	£63,745.50	£50,686.50

Both the initial sample and additional random sample identified the following excess benefit misclassification:

- 5 cases where the excess benefit should have been classified as LA error. As a result cell 148 is overstated and cell 147 is understated by the same amount. The value of the sample error was £827.15. This equates to an extrapolation value of £6,577.93.; and
- 15 cases where the excess benefit should have been classified as technical excess benefit. As a result cell 148 is overstated and cell 149 is understated by the same amount. The value of the sample error was £7,188.61. This equates to an extrapolation value of £57,167.57.

There will be no impact on the headline cell as the error relates to the classification of total expenditure (Benefit Granted) for subsidy.

However there will be an impact on:

- technical excess benefit as this attracts zero subsidy; and
- local authority error subsidy, as the authority now exceeds its lower threshold which would result in the local authority error subsidy being payable at 40% instead of 100 per cent.

The value of the errors found range from £30.14 to £1,933.66 and the benefit period ranges from 13 days to 240 days.

Given the nature of the population and the variation in the errors found it is unlikely that even significant additional work will result in an amendment to this cell that will allow me to conclude it is fairly stated.

Appendix 2 – Housing Benefit Qualification Letter

Other matters

There are two instances where errors have been identified where I am unable to extrapolate the impact.

Cell 94: Rent allowance Headline Cell £20,434,272

In testing 20 rent allowance payments, we identified 1 case where benefit entitlement was based on only one wages slip although there was evidence on file to support use of an average of wage slips. This resulted in both under and over payment of benefit – the net amount overpaid is £20.11. This would reduce the headline cell.

This is linked into the general qualification reported.

The Council has not at this time been able to identify a sub population with similar circumstances for extended testing and I have therefore not been able to extrapolate the impact of this error.

Cell 102: total expenditure related to cases not requiring referral to the rent officer: cell total £13,377,596

Headline cell 94: Rent allowance: £20,434,272

In testing 20 rent allowance payments, we identified 1 case where eligible deductions from rent had been incorrectly transferred from EBENEFIT. For this same case weekly pension entitlement had been incorrectly calculated from the monthly amount. This resulted in an overpayment of benefit of £48.02 which would impact on the headline cell. I am not convinced that this is an isolated error and so have not adjusted the claim. However it has not been possible to identify a sub population for extended testing. I have therefore not been able to extrapolate the impact of this error.

Appendix 3 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Claims and Returns Report 2008/09 - Recommendations						
7	R1 Checking procedures for grants prepared in house should be reviewed to ensure claims are accurate.	3	Simon Hewings	Yes	For next grant claim cycle.	
7,8	R2 The role of the Council in monitoring the accuracy of benefits processing to support correct payment of benefit during the year, and in completion of the housing benefit claim, should be strengthened.	3	Paul Howden	Yes		

Appendix 3 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Claims and Returns Report 2008/09 - Recommendations						
7,8	<p>R3 Issues arising from the certification of the benefits claim should be raised with Capita via the contract for the provision of benefit processing. In particular the Council should require:</p> <ul style="list-style-type: none"> • use of good practice for evidencing earnings unless there is recorded evidence to say why this is not necessary; • better accuracy and recording of pension entitlements; and • improved accuracy in classification of benefit overpayments. 	3	William Jacobs	Yes		

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

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